

Message Text

CONFIDENTIAL

PAGE 01 WARSAW 03505 01 OF 03 210901Z

11

ACTION EUR-25

INFO OCT-01 ISO-00 NIC-01 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 SAJ-01

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INFO AMEMBASSY MOSCOW

AMEMBASSY BELGRADE

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AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY LONDON

AMEMBASSY PARIS

US MISSION BERLIN

AMCONSUL POZNAN

AMCONSUL MUNICH

AMEMBASSY ROME

C O N F I D E N T I A L SECTION 1 OF 3 WARSAW 3505

E.O. 11652: GDS

TAGS: PFOR, PL, US

SUBJECT: QUARTERLY REPORT ON MAJOR POLITICAL AND ECONOMIC

TRANS: APRIL-JUNE, 1974

1. SUMMARY: DURING THE SECOND QUARTER OF 1974, THE GOP AND THE POLISH PRESS CONTINUED TO SEIZE UPON EVERY OPPORTUNITY TO EMPHASIZE POLAND'S SUPPORT FOR DETENTE. AT THE SAME TIME, HOWEVER, PARTY SECRETARY SZYDLAK SAID IN A MAJOR
CONFIDENTIAL

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PAGE 02 WARSAW 03505 01 OF 03 210901Z

IDEOLOGICAL SPEECH IN LATE MARCH (PUBLISHED IN EARLY MAY)

THAT DETENTE DOES NOT MEAN CESSATION OF THE CLASS STRUGGLE. SZYDLAK WARNED THAT POLES MUST BE PREPARED IDEOLOGICALLY TO COPE WITH THE LARGE INCREASE IN CONTACTS WITH THE WEST WHICH DETENTE WILL BRING. THIS STATED CONCERN FOR MAINTAINING IDEOLOGICAL PURITY IN THE FACE OF THE ATTRACTIONS OF DETENTE IS PROBABLY MORE IN RESPONSE TO MOSCOW'S CALL FOR CLOSER WARSAW PACT IDEOLOGICAL COOPERATION THAN A REFLECTION OF GENUINE GOP CONCERN.

2. THE GIEREK LEADERSHIP CONTINUES TO LOOK STABLE AND VIGOROUS, BUT THIS QUARTER PRODUCED THE FIRST MAJOR PERSONNEL SHIFT IN THE LEADERSHIP HIERARCHY FOR OVER TWO YEARS. SZLACHCIC, WHO EARLIER WAS WIDELY BELIEVED TO BE GIEREK'S HEIR APPARENT, WAS APPOINTED TO A HIGH GOVERNMENT POSITION AS DEPUTY PREMIER--A POSITION INCOMPATIBLE WITH CONTINUED MEMBERSHIP OF THE PZPR-CC SECRETARIAT. SZYDLAK, A WELL ESTABLISHED, HARD-DRIVING, HARD-NOSED PARTY BUREAUCRAT, APPEARS TO HAVE MOVED INTO THE VACUUM CREATED BY SZLACHCIC'S DEPARTURE. UNTIL A FEW MONTHS AGO, SZLACHCIC HAD BEEN GETTING HEAVY EXPOSURE AS SOMETHING OF A NATIONALIST FIGURE, AND NATIONALIST ELEMENTS, SOME OF WHICH COULD CERTAINLY BE REGARDED AS PROPONENTS OF PLACING POLISH INTERESTS ABOVE THOSE OF INTERNATIONAL COMMUNIST SOLIDARITY, WERE COALESCING AROUND HIM. SZYDLAK AND THE MORE CONSERVATIVE, SEASONED PARTY BUREAUCRATS HE REPRESENTS ARE MORE RELIABLE AS TRANS-MITTERS AND ENFORCERS OF THE RECENT SOVIET DEMAND FOR GREATER IDEOLOGICAL ORTHODOXY AND COORDINATION THAN SZLACHCIC AND HIS GROUP.

3. DESPITE THE FEBRUARY VISIT OF ARCHBISHOP CASAROLI, CHURCH-STATE RELATIONS HAVE NOT IMPROVED AND THERE IS NO INDICATION THEY WILL DO SO IN THE FORESEEABLE FUTURE.

4. THE IMPLEMENTATION OF THE AMBITIOUS PROGRAM OF WAGE AND PRICE ADJUSTMENTS, ANNOUNCED IN JANUARY, HAS NOT BEEN WELL RECEIVED AND THERE IS FAIRLY WIDESPREAD GRUMBLING ABOUT THE SHORTAGE OF MEAT AND CREEPING INFLATION. HOWEVER, THERE IS NO INDICATIONS OF SERIOUS DISCONTENT.

5. ON THE INTERNATIONAL SCENE, POLAND CONTINUES TO EMPHASIZE
CONFIDENTIAL

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PAGE 03 WARSAW 03505 01 OF 03 210901Z

ITS SPECIAL RELATIONSHIP WITH THE SOVIET UNION AND IS GIVING STEADILY INCREASING ATTENTION TO ITS RELATIONS WITH THE GDR. NEGOTIATIONS WITH THE FRG ON CREDITS VERSUS REPATRIATION OF ETHNIC GERMANS BROKE DOWN COMPLETELY IN EARLY APRIL AGAINST THE BACKGROUND OF AN OFFICIALLY INSPIRED PRESS CHORUS CHARGING BAD FAITH ON THE PART OF THE FRG. BRANDT'S RESIGNATION WAS A VISIBLE SHOCK TO THE GOP, WHICH REALIZES IT WILL NOT BE EASIER TO WORK OUT AN AGREEMENT WITH SCHMIDT.

6. THE POLISH ECONOMY CONTINUES TO EXPAND RAPIDLY, BUT THERE IS GROWING CONCERN OVER DEMAND PRESSURE AND THE GOP IS GRAPPLING, APPARENTLY UNSUCCESSFULLY, WITH AN EXCESSIVELY HIGH INVESTMENT RATE. BOTH IMPORTS AND EXPORTS CONTINUE TO SURGE UPWARD, WITH THE FORMER LEADING THE WAY, PRODUCING A GROWING TRADE DEFICIT. 1974 EXPORT TARGETS ARE BEING REVISED UPWARD AND INCREASING EMPHASIS IS BEING GIVEN TO THE DEMAND FOR THE MORE EFFICIENT USE OF IMPORTED RAW MATERIALS.

7. US-POLISH TRADE IS STILL GROWING AT A RAPID RATE AND PROSPECTS FOR A WIDE EXPANSION OF BILATERAL COOPERATION IN ENERGY WERE BUOYED BY THE MAY VISIT TO THE US OF DEPUTY PREMIER MITREGA.

8. THE ATMOSPHERE REMAINS EXCELLENT FOR MOVING AHEAD ON THE RECOMMENDATIONS CONTAINED IN WARSAW 70. END SUMMARY.

9. INTERNAL POLITICAL SITUATION. GIEREK APPARENTLY REMAINS FIRMLY IN CONTROL AND CONTINUES TO DEMONSTRATE IMPRESSIVE PERSONAL POPULARITY, DESPITE FAIRLY WIDESPREAD GRUMBLING ABOUT THE SHORTAGE OF MEAT AND CREEPING INFLATION. HOWEVER, THIS QUARTER SAW THE MOST SIGNIFICANT POWER SHIFT WITHIN THE POLISH PARTY (PZPR) LEADERSHIP IN OVER TWO YEARS WHEN, ON MAY 29, HEIR-APPARENT FRANCISZEK SZLACHCIC WAS KICKED UPSTAIRS TO A VICE PREMIER-SHIP. ALTHOUGH THERE HAS BEEN NO ANNOUNCEMENT OF SZLACHCIC'S REMOVAL FROM THE PARTY SECRETARIAT, IT IS WIDELY BELIEVED THAT THIS MUST BE A CONSEQUENCE OF THE MAY 29 ACTION, SINCE THERE IS NO PRECEDENT FOR A PARTY SECRETARY ALSO HOLDING A GOVERNMENTAL POSITION. A CENTRAL COMMITTEE PLENUM IS TO BE HELD JUNE 25 AND MAY RATIFY SZLACHCIC'S DEMOTION
CONFIDENTIAL

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PAGE 04 WARSAW 03505 01 OF 03 210901Z

BY REMOVING HIM FROM THE SECRETARIAT.

10. PARTY SECRETARY JAN SZYDLAK, WHO HAS POLITBIURO RESPONSIBILITY FOR IDEOLOGICAL AND ECONOMIC POLICY, APPEARS BY DEFAULT TO HAVE MOVED INTO THE VACUUM AS THE PUTATIVE NEW NO. 2 IN THE PARTY HIERARCHY. HE IS WIDELY BELIEVED TO BE DOCTRINAIRE IN IDEOLOGICAL POLICY, BUT PRAGMATIC IN ECONOMIC POLICY. UNLIKE SZLACHCIC, HE HAS NEVER BEEN CONSIDERED A NATIONALIST. SZYDLAK REPRESENTS THE CAUTIOUS INTERESTS OF THE SEASONED PARTY BUREAUCRACY. HIS ASCENDANCY AND SZLACHCIC'S DEMOTION PRESUMABLY CONSTITUTE A POLISH RESPONSE TO MOSCOW'S CALL FOR GREATER IDEOLOGICAL ORTHODOXY DURING THE CURRENT PERIOD OF CONTINUED PURSUIT OF THE ECONOMIC FRUITS OF DETENTE. WARSAW 3482; PIONTEK-HERTZBERG-KOPP MEMCON OF JUNE 6.

11. THE PROCESS OF CONCENTRATION OF POLITICAL AND GOVERNMENTAL POWER AT THE UPPERMOST ECHELONS, BEGUN LAST QUARTER WITH THE APPOINTMENT OF TWO POLITBIURO MEMBERS, BARCIKOWSKI AND TEJCHMA, AS MINISTERS OF AGRICULTURE AND CULTURE, RESPECTIVELY, CONTINUED THIS QUARTER WITH THE APPOINTMENT OF VICE PREMIER AND CENTRAL COMMITTEE MEMBER KAZIMIERZ OLSZEWSKI AS MINISTER OF FOREIGN TRADE AND MARITIME ECONOMY. WE BELIEVE THIS TREND TOWARDS TIGHTENING PARTY CONTROL AT THE HIGHEST LEVELS WILL CONTINUE AND WILL INVOLVE ADDITIONAL HIGH-LEVEL PERSONNEL CHANGES.

12. A TIGHT INNER GROUP OF PARTY TECHNOCRATS HAS DEVELOPED, NONE OF WHOM WAS IN GOMULKA'S INNER CIRCLE AND NONE OF WHOM WAS ASSOCIATED WITH GIEREK'S ONE-TIME CONTENDER FOR GOMULKA'S MANTLE, MIECZYSLAW MOCZAR. IN ADDITION TO GIEREK AND SZYDLAK, THIS GROUP INCLUDES PARTY SECRETARIES EDWARD BABIUCH, STANISLAW KANIA, AND STANISLAW KOWALCZYK. PREMIER PIOTR JAROSZEWICZ ALSO FALLS WITHIN THIS INNER CIRCLE OF POLITICAL POWER, BUT IS WIDELY RUMORED TO BE A DIABETIC IN FAILING HEALTH WHO WILL MOST LIKELY BE KICKED UPSTAIRS LATER THIS YEAR TO THE LESS PHYSICALLY DEMANDING POSITION OF CHAIRMAN OF THE COUNCIL OF STATE.

CONFIDENTIAL

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PAGE 01 WARSAW 03505 02 OF 03 210917Z

21

ACTION EUR-25

INFO OCT-01 ISO-00 NIC-01 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

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C O N F I D E N T I A L SECTION 2 OF 3 WARSAW 3505

13. IN THUS TIGHTENING PARTY CONTROL OVER ALL KEY ASPECTS OF POLITICAL, DCIAL, AND ECONOMIC ACTIVITY, GIEREK OBVIOUSLY HOPES TO STRENGTHEN THE ORGANIZATIONAL FRAMEWORK HE WILL HAVE TO RELY UPON IN HIS EFFORTS TO CONTINUE TO RULE EFFECTIVELY AS HIS POLITICAL OPTIONS ARE NARROWED BY SOME OF THE TOUGH ECONOMIC SLEDDING AHEAD. THE AMBITIOUS PROGRAM OF WAGE AND PRICE INCREASES ANNOUNCED IN JANUARY HAS NOT BEEN RECEIVED WELL BY MANY SEGMENTS OF POLISH SOCIETY. MOST POLES ARE CONVINCED THAT ITS OVERALL EFFECT WILL BE TO REDUCE THEIR
CONFIDENTIAL

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PAGE 02 WARSAW 03505 02 OF 03 210917Z

PURCHASING POWER. IT IS WIDELY BELIEVED THAT THE FULL IMPACT OF THE PRICE INCREASES, BOTH THOSE WHICH HAVE BEEN ANNOUNCED AND THOSE ON MANY OTHER PRODUCTS WHICH ARE EDGING SLOWLY UPWARD VIA CHANGES IN PACKAGING AND PRODUCT DESIGNATION, MORE THAN CANCEL OUT FOR MOST THE 1974 WAGE INCREASES AND MAY EVEN CUT INTO THE REAL-WAGE GAINS OF RECENT YEARS. THE HOUSING SHORTAGE ALSO REMAINS A CHRONIC PROBLEM; GIEREK RECENTLY ADMITTED TO A UNION OF SOCIALIST YOUTH ACTIVE THAT IT WOULD NOT SOON BE RESOLVED AND ASKED THEIR FORBEARANCE.

14. ALTHOUGH NO ONE IS PREDICTING ANY SIGNIFICANT MANIFESTATION OF POPULAR DISCONTENT, GRUMBLING IS RELATIVELY WIDESPREAD AND WE RECEIVE PERIODIC REPORTS OF BRIEF WILDCAT WORK STOPPAGES IN INDUSTRIAL PLANTS AND OTHER ENTERPRISES THROUGHOUT POLAND. AT THE SAME TIME, HOWEVER, JUDGING BY THE THRONGS OF POLESIN THE RELATIVELY WELL-STOCKED STORES AND SHOPS, PURCHASING EVERYTHING IN SIGHT, THERE IS NO SHORTAGE OF PURCHASING POWER. THE QUESTION IS WHETHER OR NOT GIEREK CAN CONTINUE TO MEET THE RISING EXPECTATIONS OF THE POLISH CONSUMER WELL ENOUGH TO AVOID SERIOUS POPULAR DISILLUSIONMENT WITH HIS PROGRAM. IF NOT, HE MAY BE FACED WITH SOME TOUGH POLITICAL DECISIONS.

15. THE ECONOMIC SCENE. THE POLISH ECONOMY CONTINUED ITS EXPANSION INTO THE SECOND QUARTER OF 1974. INDUSTRIAL

PRODUCTION AND LABOR PRODUCTIVITY ARE RISING AT ABOVE-PLAN RATES, BUT THERE IS GROWING CONCERN OVER DEMAND PRESSURE GENERATED BY THE 27-BILLION ZLOTY INCREASE (19.92 ZLOTYS-\$1) IN INCOMES, TO BE INTRODUCED DURING THE YEAR. TARGETS FOR 1974 INDUSTRIAL PRODUCTION HAVE BEEN RAISED BY ABOUT 2 PERCENT IN AN EFFORT TO ACHIEVE MARKET BALANCE.

16. THE POLES ARE GRAPPLING, APPARENTLY UNSUCCESSFULLY, WITH AN EXCESSIVELY HIGH INVESTMENT RATE. FIRST-QUARTER INVESTMENT SURPASSED THE PLANNED LEVEL BY MORE THAN 13 PERCENT, AND THE COUNCIL OF MINISTERS HAS CALLED AGAIN FOR ELIMINATION OF EXTRA-PLAN INVESTMENTS DURING 1974. PROLIFERATION OF NEW PROJECTS HAS LENGTHENED INVESTMENT CYCLES AND DELAYED PRODUCTION OF GOODS NEEDED FOR DOMESTIC AND EXPORT MARKETS.

CONFIDENTIAL

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PAGE 03 WARSAW 03505 02 OF 03 210917Z

17. CLOSELY ASSOCIATED WITH SURGING INVESTMENTS IS THE SUSTAINED HIGH LEVEL OF POLISH IMPORTS. FIRST-QUARTER IMPORTS WERE 42 PERCENT ABOVE TOTALS FOR THE COMPARABLE PERIOD IN 1973. DESPITE A 25 PERCENT INCREASE IN EXPORTS, POLAND INCURRED A FIRST-QUARTER TRADE DEFICIT OF APPROXIMATELY 810-MILLION IN FOREIGN-EXCHANGE ZLOTYS (3.32 FOREIGN-EXCHANGE ZLOTY-\$1). CONCERN OVER THE GROWING TRADE DEFICIT MAY WELL HAVE TRIGGERED THE REMOVAL IN APRIL OF OLECHOWSKI AS FOREIGN TRADE MINISTER AND THE CONCURRENT AMALGAMATION OF FOREIGN TRADE AND MARITIME AFFAIRS UNDER THE CONTROL OF DEPUTY PEREMIER OLSZEWSKI.

18. IN AN EFFORT TO NARROW THE TRADE GAP, 1974 EXPORT TARGETS ARE BEING REVISED UPWARD AND RENEWED EMPHASIS IS BEING PLACED ON MORE EFFICIENT USE OF IMPORTED (AND INCREASINGLY COSTLY) RAW MATERIALS. PRIME MINISTER JAROSZEWICZ IN A MAY 18 ADDRESS TO THE SEJM REFERRED TO "TEMPORARY RESTRICTIONS" RECENTLY PLACED ON IMPORTS, BUT WE HAVE YET TO LEARN THE SCOPE OF THESE MEASURES OR HOW THEY WILL BE IMPLEMENTED.

19. ENDEAVORS TO HOLD DOWN RAW-MATERIAL IMPORTS APPEAR TO BE MEETING WITH SOME SUCCESS IN THE PETROLEUM SECTOR: CRUDE-OIL AND PETROLEUM-PRODUCT IMPORTS FOR THE FIRST THREE MONTHS OF 1974 WERE SLIGHTLY BELOW FIRST-QUARTER 1973 LEVELS. POLAND'S QUEST FOR NEW SOURCES OF PETROLEUM HAS PRODUCED 1974 AGREEMENTS WITH IRAN, ALGERIA, AND LIBYA. PRICES AND QUANTITIES HAVE NOT BEEN PUBLICIZED AND IN AT LEAST ONE CASE (LIBYA) ARE SUBJECT TO YEARLY ADJUSTMENT. THE POLES ARE MAKING EVERY EFFORT TO BARTER, OFFERING EQUIPMENT, TECHNICAL SERVICES, AND TURN-KEY PROJECTS.

20. IDEOLOGICAL-CULTURAL. THE SLIGHT TREND TOWARD IDEOLOGICAL TIGHTENING WHICH WE RREPORTED IN OUR LAST QUARTERLY TREND REPORT ACCELERATED SOMEWHAT THIS QUARTER WITH THE PUBLICATION OF THE MOST AUTHORITATIVE AND SIGNIFICANT IDEOLOGICAL STATEMENT TO APPEAR HERE IN THE PAST YEAR. A SPEECH BY SZYDLAK TO THE NATION-WIDE PARTY IDEOLOGICAL AND DIPLOMATIC ACTIVE ON MARCH 25 (PUBLISHED IN THE MAY ISSUE OF NOWE DROGI), ENTITLED "CURRENT PROBLEMS OF IDEOLOGICAL-PROPAGANDA WORK IN OUR FOREIGN RELATIONS", WAS CLEARLY STIMULATED BY THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 WARSAW 03505 02 OF 03 210917Z

DECEMBER IDEOLOGICAL MEETING IN MOSCOW AND IS THE OFFICIAL POLISH RESPONSE TO THE RESOLUTIONS OF THAT MEETING. SZYDLAK WARNS THAT POLAND MUST PREPARE ITS PEOPLE IDEOLOGICALLY FOR THE LARGE INCREASE IN CONTACTS WITH THE WEST WHICH DETENTE WILL BRING. HE CALLS FOR GREATER IDEOLOGICAL COORDINATION AMONG THE ALLIED COMMUNIST STATES. PERHAPS MOST OMINOUSLY, HE WARNS AGAINST EFFORTS TO EMPLOY NATIONALISM TO NEGATE SOCIALIST VALUES. YET, SZYDLAK'S SPEECH IS PRO-DETENTE AND MAKES NO OPEN THREATS WITH REGARD TO THE DOMESTIC SCENE.

21. DESPITE THIS SPEECH AND SOME OTHER IDEOLIGICAL ARTICLES RECENTLY, WE HAVE NOT NOTICED ANY BLATANT IDEOLOGICAL TIGHTENING. SOME POLES IN CULTURAL AND INTELLECTUAL CIRCLES EXPRESS CONCERN THAT SZYDKAL' SPEECH IS AN INDICATION OF A DRIVE FOR GREATER IDEOLOGICAL PURITY. HOWEVER, NO ONE HAS YET BEEN ABLE TO GIVE US ANY MEANINGFUL EXAMPLES OF REPRESSIVE MEASURES. A POLISH FILM-IMPORT OFFICIAL RECENTLY TOLD US THAT HIS ORGANIZATION HAD BEEN DIRECTED TO BALANCE OUT ITS IMPORT OF FOREIGN FILMS SO THAT NOT MORE THAN 50 PERCENT WOULD COME FROM THE WEST; THE OTHER 50 PERCENT HAD TO COME FROM THE COMMUNIST WORLD. ON THE OTHER HAND, POLAND'S LEADING THEATERICAL CRITIC TOLD US THAT NEXT YEAR'S THEATRICAL SEASON IS LIKELY TO BE EVEN BETTER THAN THIS YEAR'S RATHER GOOD SEASON, WITH AT LEAST AS MUCH WESTERN INFLUENCE.

22. SOME NEWSPAPER REPORTERS CLAIM THAT CENSORSHIP IS GETTING TIGHTER. HOWEVER, WE FIND THAT THE POLISH PRESS STILL CARRIES A REMARKABLE AMOUNT OF RELATIVELY BALANCED REPORTING ON EVENTS IN THE WEST. THE UNITED STATES IS STILL GETTIN AN EXCELLENT PRESS AND WE WERE TOLD RECENTLY BY A NORMALLY WELL-INFORMED TELEVISION NEWS EDITOR THAT A PARTY DIRECTIVE IN LATE MAY INSTRUCTED THE MEDIA TO AVOID CRITICISM OF PRESIDENT NIXON AND, KN GENERAL, TO TREAT THE UNITED STATES FAVORABLY. WE SUSPECT THAT WE WILL CONTINUE TO GET AN UNUSAUALLY GOOD PRESS IN POLAND AT LEAST THROUGHOUT THE SUMMER.

23. APART FROM PURELY IDEOLOGICAL SPEECHES AND ARTICLES, LIKE SZYDLAK'S WE STILL FIND OFFICIAL EXHORTATIONS TO BE COUCHED MORE IN PATRIOTIC THAN IN IDEOLOGICAL TIGHTENING, PARTICULARLY IN

PARTY ORGANIZATIONS. POLAND UNDOUBTEDLY WILL ALSO GO THROUGH
THE MOTIONS OF GREATER IDEOLOGICAL COOPERATION AND COORDINA-
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PAGE 05 WARSAW 03505 02 OF 03 210917Z

TION WITH ITS COMMUNIST ALLIES. INTELLECTUALS MAY FEEL UNDER
SOMEWHAT GREATER RESTRAINT. WE DO NOT, HOWEVER, FORESEE A
SHARP INCREASE IN THE AMOUNT OF IDEOLOICAL CONTENT TO WHICH
THE AVERAGE POLE WILL BE SUBJECTED IN HIS DAILY LIFE.

CONFIDENTIAL

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PAGE 01 WARSAW 03505 03 OF 03 210953Z

21

ACTION EUR-25

INFO OCT-01 ISO-00 NIC-01 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

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C O N F I D E N T I A L SECTION 3 OF 3 WARSAW 3505

24. CHURCH-STATE-VATICAN RELATIONS. CHURCH-STATE RELATIONS APPEAR TO HAVE SOURED SOMEWHAT THIS QUARTER. CARDINAL WYSZYNSKI DELIVERED AT LEAST ONE TOUGH SERMON ON THE ISSUE OF THE CONSTRUCTION OF NEW CHURCHES, AND THE EPISCOPATE HAS ADDRESSED THIS AS A "BURNING" ISSUE, CHARGING THAT THE REGIME IS NEGLECTING THE PROBLEM, ESPECIALLY IN THE GROWING SUBURBS, SOME OF WHICH ARE TOTALLY WITHOUT RELIGIOUS BUILDINGS. ALTHOUGH WE HAVE BEEN TOLD BY THE VATICAN THAT THERE ARE CONFIDENTIAL

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PAGE 02 WARSAW 03505 03 OF 03 210953Z

ONGOING CONVERSATIONS WITH GOP DIPLOMATIC REPRESENTATIVES IN ROME, THE IMMEDIATE GLOW OF ARCHBISHOP CASAROLI'S VISIT IN FEBRUARY HAS FADED AND THE VATICAN APPEARS TO BE SERIOUS WHEN IT SAYS IT WILL NOT UNDERCUT THE POLISH EPISCOPATE IN ITS MOVEMENT TOWARDS NORMALIZATION OF RELATIONS WITH THE GOP.

25. IN HIS MARCH 25 IDEOLOGICAL SPEECH, SZYDLAK ATTACKED THE "REACTIONARY PART OF THE EPISCOPATE" AS THE "MAIN, ORGANIZED ANTI-SOCIALIST FORCE IN OUR COUNTRY". TWO MONTHS LATER, THE GOP ADDED INJURY TO INSULT WHEN IT APPOINTED KAZIMIERZ KAKOL, AN OUTSPOKEN, OCCASIONALLY FEARED, AND ALMOST UNIVERSALLY DISLIKED FORMER MOCZARITE, AS HEAD OF THE COUNCIL OF MINISTERS' OFFICE FOR RELIGIOUS AFFAIRS.

26. THUS THE GIEREK REGIME, WHICH HAS CLEVERLY AVOIDED OPEN CONFRONTATIONS WITH THE CHURCH, HAS STRAYED PERILOUSLY CLOSE TO VIOLATING THIS STRATEGY BY THE SZYDLAK STATEMENT AND THE KAKOL APPOINTMENT.

27. FOREIGN RELATIONS. THERE WAS A NEGATIVE TREND IN POLAND'S RELATIONS WITH THE FRG. POLAND BEGAN THE QUARTER WITH A SHARP PRESS AND TELEVISION ATTACK ON THE FRG OVER THE BREAKDOWN OF NEGOTIATIONS ON CREDITS AND THE REPATRIATION OF ETHNIC GERMANS. A SENIOR POLISH EDITOR SAID PUBLICLY THAT POLISH-FRG RELATIONS HAD REACHED THEIR LOWEST EBB SINCE THE SIGNING OF THE BONN-WARSAW AGREEMENT IN DECEMBER, 1970. IT WAS MADE CLEAR THAT THE GIEREK VISIT TO BONN HAD BEEN POSTPONED INDEFINITELY. BRANDT'S RESIGNATION SIX WEEKS LATER SENT SHOCK WAVES THROUGH THE GOP AS IT REALIZED THAT SCHMIDT WAS LIKELY TO BE LESS FORTHCOMING THAN BRANDT ON CREDITS AND INDEMNIFICATION. THERE IS LITTLE EXPECTATION AMONG POLES NOW THAT THE NEGOTIATIONS WILL GET BACK ON THE TRACK BEFORE FALL, AT THE EARLIEST. THERE ALSO IS A STRONG FEELING THAT THE HARDENING OF THE POLISH POSITION JUST WHEN AGREEMENT WAS WITHIN REACH WAS AN EXPENSIVE TACTICAL ERROR. AS THE RUMORED PROPONENT OF CONCLUDING THE AGREEMENT AT THAT TIME, FOREIGN

MINISTER OLSZOWSKI HAS COME OUT OF THE FRAY WITH INCREASED STATURE.

28. ON THE OTHER HAND, RELATIONS WITH THE GDR CONTINUED TO RECEIVE HEAVY ATTENTION, PARTICULARLY ON THE CONOMIC SIDE.
CONFIDENTIAL

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PAGE 03 WARSAW 03505 03 OF 03 210953Z

THE JUNE 4-8 VISIT OF THE GDR PARTY-GOVERNMENT DELEGATION, LED BY HONECKER, EMPHASIZED THE SPECIAL POLISH-GDR RELATIONSHIP THAT IS DEVELOPING. THE POLES MADE A CONSCIOUS EFFORT TO PLACE THE EAST GERMAN TRIP ON A HIGHER LEVEL THAN THE VISIT EARLIER THIS YEAR OF HUSAK. THERE WERE REFERENCE IN THE COMMUNIQUE AND IN SPEECHES DURING THE VISIT TO THE GREAT VALUE BOTH SIDES PLACE ON THEIR INCREASED ECONOMIC COOPERATION.

29. ANOTHER STATE VISIT THAT EMPHASIZED A SPECIAL RELATIONSHIP THE POLES ARE INTERESTED IN FOSTERING WAS THAT OF SWEDISH PREMIER OLOF PALME. HIS VISIT APPEARS TO HAVE FURTHERED ECONOMIC AND INDUSTRIAL COOPERATION IN SEVERAL FIELDS AND ALSO PRODUCED AN AGREEMENT MUTUALLY ABOLISHING VISA REQUIREMENTS.

30. THERE WERE NO NEW DEVELOPMENT IN POLISH-SOVIET RELATIONS, BUT THE POLES CONTINUED TO EMPHASIZE THEIR SPECIAL RELATIONSHIP, AS THE "SECOND SOCIALIST STATE", WITH THE SOVIET UNION. IN A MAJOR FOREIGN-POLICY SPEECH BEFORE THE SEJM ON MAY 29, FOREIGN MINISTER OLSZOWSKI MADE POINTED REFERENCES TO THE FREQUENCY OF HIGH-LEVEL BILATERAL MEETINGS WITH THE SOVIET LEADERSHIP OVER THE PAST YEAR INVOLVING GIEREK AND BREZHNEV, JAROSZEWICZ AND KOSYGIN, AND HIMSELF AND GROMYKO. HE ALSO HINTED AT THE POSSIBILITY THAT BREZHNEV WOULD COME TO WARSAW JULY 22 FOR THE 30TH ANNIVERSARY OF THE FOUNDING OF THE POLISH PEOPLE'S REPUBLIC.

31. US-POLISH ECONOMIC AND TRADE RELATIONS. IN THE COURSE OF HIS VISIT TO THE U.S. IN MAY, DEPUTY PREMIER MITREGA TENDERED A GOP REQUEST FOR TALKS ON THE EXTENSION OF THE PRESENT PL-480 DEBT-DEFERRAL AGREEMENT FOR THREE ADDITIONAL YEARS, 1975-1977. AN AIDE-MEMOIRE POINTED OUT THAT DEFERRAL OF POLISH REPAYMENTS IN 1973-4 "HAS ENABLED THE POLISH SIDE TO MAKE ADDITIONAL PURCHASES OF INVESTMENT GOODS FROM THE UNITED STATES."

32. US-POLISH TRADE CONTINUED TO EXPAND RAPIDLY. COMPARED WITH THE SAME PERIOD OF 1973, U.S. EXPORTS FOR THE FIRST THREE MONTHS OF 1974 INCREASED BY 39 PERCENT, WHILE U.S. IMPORTS FROM POLAND WERE UP BY A STRIKING 80 PERCENT, ACCORDING TO U.S. DEPARTMENT OF COMMERCE STATISTICS. POLISH EFFORTS TO
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PAGE 04 WARSAW 03505 03 OF 03 210953Z

INCREASE BUSINESS WITH U.S. WEST COAST MARKETS WERE BEGUN BY THE DESPATCH OF A DIRECTOR TO OPEN THE POLISH CHAMBER OF FOREIGN TRADE OFFICE IN SAN FRANCISCO. FIRST NATIONAL BANK OF CHICAGO BECAME THE FIRST WESTERN BANK TO RECEIVE ACCREDITATION TO OPEN AN OFFICE IN WARSAW.

3. PROSPECTS FOR WIDE EXPANSION OF BILATERAL COOPERATION IN ENERGY WERE BUOYED BY MITREGA'S VISIT TO THE U.S. THE MITREGA DELEGATION RETURNED IN A JUBILANT MOOD AFTER WHAT THEY TERMED AN UNEXPECTEDLY WARM RECEPTION BY U.S. GOVERNMENT AND INDUSTRY OFFICIALS. STRONG INTEREST DEVELOPED DURING THE VISIT FOR SALES, LICENSING, AND CO-PRODUCTION OF COAL-MINING AND PETROLEUM-DRILLING EQUIPMENT, PETROLEUM PROSPECTING RIGHTS, AND THE CONSTRUCTION IN POLAND OF A COAL GASIFICATION/LIQUEFACTION DEMONSTRATION PLANT. WHILE THE GOVERNMENTAL AGREEMENT ON COOPERATIVE ENERGY RESEARCH, WHICH THE POLES DESIRED, DID NOT MATERIALIZE, THEY APPEAR WELL SATISFIED WITH THE PROGRESS MADE BY MITREGA TOWARDS SUCH AN AGREEMENT, WHICH THEY NOW HOPE TO SEE CONCLUDED LATER THIS YEAR.

34. WHILE THE POLES CONTINUE TO EXPRESS CONCERN OVER THE PROSPECTS OF A RAPID PHASE-DOWN IN THE S&T COOPERATION PROGRAM, THE JOINT-FINANCING NEGOTIATION REMAINS STALLED OVER THE PROPOSED AMOUNTS AND METHODS OF CONTRIBUTION. IMPRESSIONS RECEIVED DURING THE MITREGA VISIT HAVE PROBABLY SPURRED POLISH HOPES THAT ADDITIONAL PL-480 FUNDS MIGHT BE FORTHCOMING FOR INCREASED COAL EXTRACTION AND PROCESSING RESEARCH. IT APPEARS PROBABLE THAT QUICK AGREEMENT ON JOINT FINANCING COULD BE REACHED IF THE U.S. WERE TO OFFER A SUBSTANTIAL ADDITION, PERHAPS \$10 MILLION EQUIVALENT, TO THE AMOUNT OF THE MATCHING CONTRIBUTION NOW PROPOSED.
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